

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 IGA-01 AGR-05 SP-02 AID-05 EB-04

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CEA-01 CIAE-00 COME-00 INR-05 LAB-01 NSAE-00 SIL-01

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R 141110Z NOV 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 8293

AMEMBASSY BANGKOK

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY SINGAPORE

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

LIMITED OFFICIAL USE SECTION 1 OF 2 PHNOM PENH 15240

BANGKOK ALSO FOR SUPPORT OFFICE

MANILA ALSO FOR USADB

E.O. 11652: N/A

TAGS: EAID, EFIN, CB

SUBJECT: EXCHANGE SUPPORT FUND IN 1975

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1. AT THE INVITATION OF THE KHMER GOVERNMENT, REPRESENTATIVES

OF AUSTRALIA, BELGIUM, FEDERAL REPUBLIC OF GERMANY, FRANCE, INDONESIA, JAPAN, MALAYSIA, NETHERLANDS, PHILIPPINES, SINGAPORE, THAILAND AND THE UNITED STATES, MET AT THE CONFERENCE ROOM OF THE MINISTRY OF FINANCE OF PHNOM PENH ON NOVEMBER 13, 1974. NEW ZEALAND, WHICH DOES NOT HAVE A RESIDENT REPRESENTATIVE IN PHNOM PENH, WAS INVITED BUT DID NOT ATTEND. THE REPRESENTATIVE OF SINGAPORE STATED HE WAS THERE UNOFFICIALLY AND THE COMMUNIQUE LISTED THE FOREGOING ATTENDEES MINUS SINGAPORE. THE MEETING WAS CHAIRED BY KHY TAING LIM, MINISTER OF FINANCE. THE GOVERNOR OF THE NATIONAL BANK OF CAMBODIA, SOK CHHONG, ATTENDED, AS WELL AS OTHER KHMER OFFICIALS. THE MEETING WAS ATTENDED BY THE REPRESENTATIVES OF THE INTERNATIONAL MONETARY FUND HEADED BY MR. PAUL CHABRIER. ALSO IN ATTENDANCE WAS MR. EDWARD FILLINGHAM, DIRECTOR OF THE EXCHANGE SUPPORT FUND. THE MEETING WAS CONVENED TO EXAMINE THE CURRENT ECONOMIC SITUATION AND PURPOSES OF THE KHMER REPUBLIC AND DISCUSS THE PROSPECTIVE NEEDS FOR FOREIGN AID IN 1975.

2. KHY TAING LIM PRESENTED THE GOVERNMENT'S VIEW OF ITS ECONOMIC POSITION AND MADE AN APPEAL FOR ASSISTANCE. HE OUTLINED THE DECLINE OF THE KHMER ECONOMY SINCE 1970, WHEN THE CURRENT HOSTILITIES BEGAN, AND DESCRIBED SOME OF THE DIFFICULTIES NOW BEING FACED. HE POINTED TO THE RECENT ECONOMIC REFORMS AS AN INDICATION OF THE GKR'S DETERMINATION TO FACE UP TO ITS ECONOMIC PROBLEMS, BUT NOTED THAT EVEN NOW THERE ARE VARIOUS ELEMENTS THREATENING TO UNDERCUT THE REMAINING ECONOMIC STRENGTH OF THE COUNTRY, SPECIFICALLY SPECULATORS WHO ARE TAKING ADVANTAGE OF THE PRESENT SCARCITY OF FOREIGN EXCHANGE FOR THEIR OWN BENEFIT. TO HELP COUNTER THESE SPECULATORS, THE GKR NEEDS ADDITIONAL FOREIGN EXCHANGE WHICH THE MEMBERS OF THE ESF COULD PROVIDE.

3. CHABRIER PRESENTED AN ANALYSIS OF THE ECONOMIC, MONETARY AND FINANCIAL SITUATION OF THE KHMER REPUBLIC. HE OUTLINED THE CURRENT ECONOMIC SITUATION AND NOTED THAT DOMESTIC PRODUCTION IS LESS THAN 50 PERCENT OF THAT JUST BEFORE THE WAR, ANNUAL INFLATION IS AROUND 300 PERCENT AND CAMBODIA CURRENTLY IMPORTS OVER 300,000 TONS OF RICE. MR. CHABRIER INDICATED THAT HE THOUGHT THE REFORMS WERE NECESSARY AND A STEP IN THE RIGHT DIRECTION BUT WOULD TAKE TIME AND FURTHER LIMITED OFFICIAL USE

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REFINEMENT IS NEEDED IF THEY ARE TO WORK. HIS PRESENTATION THEN STRESSED THE NEED FOR THE CONTINUATION OF THE EXCHANGE SUPPORT FUND IN 1975 AND ALSO HIGHLIGHTED THE PROBLEM OF DEBT SERVICING IN 1975 WHICH WILL BE MORE ACUTE THAN IN 1974 OR ANY OTHER RECENT YEAR. HE ASKED THAT THE DONORS CONSIDER IN MAKING THEIR DECISIONS ON THE AMOUNTS TO CONTRIBUTE: THE URGENT NEED FOR A LARGE VOLUME OF IMPORTS, BOTH RAW MATERIALS AND CAPITAL EQUIPMENT; THE WORLD INFLATION WHICH HAS INCREASED

THE COSTS OF THESE IMPORTS; THE GROWING DEBT SERVICE OF THE
KHMER REPUBLIC AND ITS PRESENT INCAPABILITY TO FINANCE THESE
REQUIREMENTS FROM ITS OWN RESOURCES.

4. FILLINGHAM REVIEWED THE OPERATIONS OF THE EXCHANGE
SUPPORT FUND IN 1974. HE STRESSED THE NEED FOR CONTRIBUTIONS
TO BE MADE AS EARLY AS POSSIBLE BECAUSE CURRENT REVENUES WILL
BE EXHAUSTED IN DECEMBER, AFTER WHICH TIME THE GKR WILL NEED
TO DRAW DOWN ON THE MEAGRE RESERVES OF THE NATIONAL BANK.

5. THE PARTICIPATION OF DONOR COUNTRIES IN THE EXCHANGE
SUPPORT FUND IN 1975 WAS GENERALLY DISCUSSED. THE THAI
REPRESENTATIVE SAID THEY WILL CONTRIBUTE AGAIN IN 1975. THE
JAPANESE REPRESENTATIVE ADVISED ALL PERTINENT INFORMATION
HAS BEEN FORWARDED TO TOKYO BUT THEY WERE AWAITING REPLY. HE
INDICATED PERSONALLY HE EXPECTED THE JAPANESE GOVERNMENT TO
CONTRIBUTE IN 1975. THE BRITISH REPRESENTATIVE ADVISED NO FINAL
DECISION HAD BEEN TAKEN BUT THAT A DECISION COULD BE FORTHCOMING
SHORTLY. THE MALAYSIAN REPRESENTATIVE STATED THE QUESTION WAS

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FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 8294

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UNDER ACTIVE CONSIDERATION BY HIS GOVERNMENT. REPRESENTATIVES OF OTHER COUNTRIES WHO ARE NOT CURRENTLY CONTRIBUTORS TO THE ESF MADE NO COMMITMENTS BUT ADVISED THEY WOULD FORWARD THE PROCEEDINGS OF THE CONFERENCE TO THEIR GOVERNMENTS. THE PHILIPPINE REPRESENTATIVE HOWEVER, STATED THAT THE KHMER REQUEST DESERVES SYMPATHETIC AND FAVORABLE CONSIDERATION BY THOSE INTERESTED IN THE SECURITY OF SOUTHEAST ASIA. THE U.S. REPRESENTATIVE, DIRECTOR USAID, ADVISED THE CONFERENCE THAT THE U.S. EXECUTIVE BRANCH HAD LIMITED OFFICIAL USE

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INCLUDED A U.S. CONTRIBUTION TO THE EXCHANGE SUPPORT FUND FOR THE FIRST SIX MONTHS OF 1975 IN ITS PRESENTATION TO THE CONGRESS COVERING U.S. FISCAL YEAR 1975. HE URGED OTHER GOVERNMENTS, BOTH THOSE NOW PARTICIPATING IN THE FUND AND OTHER GOVERNMENTS REPRESENTED IN THE CONFERENCE TO CONSIDER THE AID REQUIREMENTS OF THE KHMER REPUBLIC SYMPATHETICALLY AND TO MAKE EARLY DECISIONS WITH REGARD TO CONTRIBUTIONS TO THE EXCHANGE SUPPORT FUND.

6. REPRESENTATIVES OF GOVERNMENTS PARTICIPATING IN THE 1974 EXCHANGE FUND WHO ATTENDED THE CONFERENCE AGREED THAT A FURTHER MEETING SHOULD BE HELD TO DISCUSS THE REPLENISHMENT OF THE FUND FOR 1975. THE REPRESENTATIVES OF THOSE GOVERNMENTS AGREED TO PARTICIPATE IN SUCH A MEETING AND IT WAS AGREED IT WOULD BE HELD IN EARLY DECEMBER IN MANILA AT THE ASIAN DEVELOPMENT BANK. THE TIMING WAS SUGGESTED BY THE IMF AS CONVENIENT TO THEM. REPRESENTATIVES OF THE IMF, AND CHABRIER HIMSELF, WILL PARTICIPATE IN THE MEETING. THE LOCATION WAS SUGGESTED BY THE JAPANESE REPRESENTATIVE AND ENDORSED BY THE PHILIPPINES REPRESENTATIVE.

7. THE MINISTER OF FINANCE ADVISED THE PARTICIPANTS THAT THE KHMER GOVERNMENT WOULD REQUEST FACILITIES OF THE ASIAN DEVELOPMENT BANK FOR THE SITE OF THE DECEMBER MEETING. SUBSEQUENT TO THE ADJOURNMENT OF THE MEETING, THE KHMER GOVERNMENT RECEIVED CONFIRMATION THAT THE ADB WOULD MAKE ITS FACILITIES AVAILABLE FOR SUCH PURPOSE. THE DATE OF THE MEETING WAS SET FOR THURSDAY, DECEMBER 5, 1974, (ONE DAY LATER THAN THE DATE TENTATIVELY DISCUSSED AT THE PHNOM

PENH MEETING). THE MEETING WILL BE SPONSORED BY THE KHMER GOVERNMENT WHO WILL FORMALLY INVITE DONORS AND OTHER COUNTRIES TO PARTICIPATE.

DECONTROL FOLLOWING NOVEMBER 14,1975.
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